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THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)

) File No. NY-09875-A

RIPPLE LABS, INC.)

WITNESS: David Schwartz

PAGES: 1 through 303

PLACE: Securities and Exchange Commission

200 Vesey Street

New York, New York

DATE: Thursday, January 30, 2020

The above entitled matter came on for hearing,
pursuant to notice, at 10:05 a.m.

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1 APPEARANCES:

2
3 On behalf of the Securities and Exchange Commission:

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5 JON DANIELS, ESQ.

6 MANDY STURMFELZ, ESQ. (via telephone)

7 Securities and Exchange Commission

8 Division of Enforcement

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11
12 On behalf of Witness:

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15 CHRISTOPHER S. FORD, ESQ.

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18 New York, New York

19
20 Also Present:

21 Stu Alderoty, Esq., Ripple

C O N T E N T S

WITNESS: EXAMINATION

David Schwartz		7
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1 P R O C E E D I N G S

2 MS. WAXMAN: We are on the record at
3 10:05 a.m. on January 30, 2020.

4 Mr. Schwartz, will you please raise
5 your right hand.

6 Do you swear or affirm to tell the
7 truth, the whole truth and nothing but the
8 truth?

9 MR. SCHWARTZ: I do.

10 Whereupon,

11 DAVID SCHWARTZ

12 was called as a witness and, having been first
13 duly sworn, was examined and testified as
14 follows:

15 MS. WAXMAN: Please state your full
16 name and spell your name for the record.

17 THE WITNESS: My full name is David,
18 D-A-V-I-D, Joel, J-O-E-L, Lawrence,
19 L-A-W-R-E-N-C-E, Schwartz, S-C-H-W-A-R-T-Z.

20 MS. WAXMAN: Thank you. My name is
21 Daphna Waxman. With me is Jon Daniels. We
22 are officers of the Commission for the
23 purposes of this proceeding. Mandy Sturmfelz
24 is participating by phone from the Washington
25 office.

1 This is an investigation by the U.S.
2 Securities and Exchange Commission in the
3 matter of Ripple Labs NY-9875 five to
4 determine whether there have been violations
5 of the Federal Securities laws. However, the
6 facts developed in this investigation may
7 constitute violations of other federal or
8 state, civil or criminal laws.

9 Prior to the opening of the record,
10 you were provided with a copy of the Formal
11 Order of Investigation. It will be available
12 for your examination during the course of
13 today's testimony.

14 Mr. Schwartz, have you had an
15 opportunity to review the formal order?

16 THE WITNESS: Yes.

17 MS. WAXMAN: Prior to the opening of
18 the record, you were provided with a copy of
19 the SEC's form 1662, which has been previously
20 marked as Exhibit 15.

21 Mr. Schwartz have you had an
22 opportunity to read Exhibit 15?

23 THE WITNESS: Yes.

24 MS. WAXMAN: Do you have any
25 questions concerning Exhibit 15?

1 THE WITNESS: No.

2 MS. WAXMAN: Are you represented by
3 counsel here today?

4 THE WITNESS: Yes.

5 MS. WAXMAN: Would counsel please
6 state for the record your name and your firm's
7 name.

8 MR. CERESNEY: Yes. Andrew
9 Ceresney, Debevoise & Plimpton.

10 MS. COWAN: Jennifer Cowan,
11 Debevoise & Plimpton.

12 MR. ALDEROTY: Stu Alderoty, Ripple.

13 MR. FORD: Christopher Ford,
14 Debevoise & Plimpton.

15 MS. WAXMAN: Can you please state
16 for the record who you represent in the
17 investigation.

18 MR. CERESNEY: All of us represent
19 both the company and Mr. Schwartz as an
20 individual.

21 MS. WAXMAN: Mr. Schwartz, as you
22 may be aware, multiple representations of
23 witnesses by counsel presents a potential
24 counsel of interest. And the form 1662 states
25 that "The Commission will assume that the

1 witness and counsel have discussed and
2 resolved all issues concerning possible
3 conflicts of interest."

4 Mr. Schwartz, are you here --
5 appearing here today pursuant to a subpoena?

6 THE WITNESS: Yes.

7 MS. WAXMAN: Exhibit 69.

8 (SEC Exhibit No. 69 was
9 marked for
10 identification.)

11 MS. WAXMAN: This will be 70.

12 (SEC Exhibit No. 70 was
13 marked for
14 identification.)

15 EXAMINATION

16 BY MS. WAXMAN:

17 Q Mr. Schwartz, I'm showing you what's
18 been marked as Exhibit 69, which is a copy of
19 the background questionnaire that your counsel
20 provided. And Exhibit 70 which is copy of
21 your resume that your counsel also provided.

22 Is there anything inaccurate in
23 either Exhibit 69 or Exhibit 70?

24 (The witness examined the document.)

25 A The only inaccuracy is that Exhibit

1 70 is not current. So this was correct as of
2 the time this document was prepared. But that
3 was probably about two years ago.

4 Q Can you tell me what is no longer
5 accurate?

6 A I've moved since then. I no longer
7 live in Oakland. I'm no longer a director at
8 Ripple and my title has changed from chief
9 cryptographer to CTO. Otherwise, this is
10 accurate.

11 Q Your title as director was as of two
12 years ago?

13 A I don't recall precisely when I left
14 the board. But approximately two years ago, I
15 left the board. So I'm no longer director.

16 Q And your -- after you were director,
17 what was your title, your next title?

18 A CTO.

19 MR. CERESNEY: Just to be clear, I
20 think it was 2016 that you left the board.

21 Does that sound right?

22 THE WITNESS: That could be correct.
23 I'm not certain.

24 Q Okay. Thank you.

25 So when -- in what year did you come

1 CTO?

2 A I believe that was early 2018.

3 Q In between 2000 -- before you were
4 CTO, did you have another title?

5 A Chief cryptographer.

6 Q Is there anything else that's
7 inaccurate on Exhibit 70?

8 A No.

9 MR. CERESNEY: Just to be clear, on
10 the questionnaire, we did update it to the
11 present. So the questionnaire has the
12 accurate dates on it. So for example --

13 MS. WAXMAN: What page are you
14 talking about?

15 MR. CERESNEY: Number thirty-one,
16 the last page. Chief technology officer title
17 and the dates. And then just on the board
18 issue, if you look earlier in the
19 questionnaire on page five, there's a
20 reference to when Mr. Schwartz was a Ripple
21 board member, 2013 to 2016. Page -- yeah,
22 page five. The top of page five.

23 MS. WAXMAN: Yeah. Okay. Got it.
24 Thank you very much.

25 MR. CERESNEY: No problem.

1 Q Mr. Schwartz, I want to talk a
2 little first about the XRP Ledger.

3 Does the XRP Ledger have any other
4 names?

5 A At times, it has had other names.
6 Initially, it didn't really have a name. We
7 didn't refer to it in any specific way. Or
8 just the ledger if we knew the project we were
9 walking on. People have called it the Ripple
10 ledger at times. I think nomenclature today
11 is pretty consistent on XRP Ledger.

12 Q I just want to make sure we are
13 talking about the same things.

14 So has the XRP Ledger also been
15 called RCL?

16 A I believe that term has been used to
17 refer to the ledger, yes.

18 Q What does RCL represents?

19 A I believe Ripple Consensus Ledger.

20 Q Any other names?

21 A Not -- not that I'm aware of. Not
22 that I can think of at the moment.

23 Q What is the XRP Ledger?

24 A The XRP Ledger is a public
25 blockchain that tracks the movement of XRP as

1 well as other assets.

2 Q When was the XRP Ledger created?

3 A So there isn't really one date that
4 you can point to. It's sort of evolved from a
5 development process that began at the very end
6 of 2011. And I would describe it as fully
7 functional, I believe in early to mid-2012. I
8 should clarify that by "fully functional," I
9 mean you can demonstrate its key functions.
10 Because it's had functionality added to it
11 subsequently.

12 Q At the time that it was fully
13 functional, had XRP been created?

14 A So once the software was functional,
15 every time you start the software up, it
16 creates an internal token. So every time you
17 launch it, it will create -- it will create a
18 new instance of a token. At the time, we
19 didn't call it XRP. I believe we were using
20 the term "new coins" at the time. So we were
21 constantly creating and destroying instances
22 of tokens through the development process.

23 Q What was your involvement with the
24 creation of the XRP Ledger?

25 A My primary -- my primary

1 responsibility was the actual development of
2 the software.

3 Q Does that mean were you writing
4 code?

5 A Yes.

6 Q Was anyone else involved in the
7 creation of the XRP Ledger?

8 A In the very beginning, it was mostly
9 Jed McCaleb and myself. I believe there were
10 some consultants who were involved in a more
11 minor way. But the primary development was
12 myself and Jed McCaleb. We -- around, I
13 believe, the beginning of 2012, we added
14 Arthur Britto. And the majority of the
15 development work at that time was done by
16 Arthur Britto and myself.

17 Q What was Jed's role?

18 A Jed was sort of the head of the
19 project. It was his idea. He was paying my
20 salary at the time. And he -- he -- he was
21 effectively CEO.

22 Q Was there a company that he was CEO
23 of?

24 A No, not at that time. That's what I
25 mean by "effectively."

1 Q When you say, "it was his idea,"
2 what idea are you referring to?

3 A The very original idea that he had
4 was to replace the proof of work in Bitcoin
5 with something else. He had the idea to use
6 the distributive agreement algorithm. Then he
7 found me and hired me to develop that idea.

8 Q Did he have a previous relationship
9 with Arthur Britto?

10 A I don't believe so.

11 Q How did Arthur come onto the
12 project?

13 A Soon after that, we added [REDACTED]
14 as an investor. I believe [REDACTED]
15 introduced Arthur Britto and Jed McCaleb.

16 Q Was McCaleb involved in the
17 developing the ledger? What I mean is, was he
18 writing code?

19 A He did write some code.

20 Q Who wrote the majority of the code?

21 A Arthur Britto and myself.

22 Q What is XRP?

23 A XRP is the XRP Ledger's native
24 token.

25 Q Who created XRP?

1 A My understanding is that what -- the
2 current instance of the XRP token was created
3 by Jed McCaleb when he deployed the XRP Ledger
4 code to the actual servers that ran the sort
5 of live instance.

6 Q When was that?

7 A I don't -- I don't recall the date.
8 I believe -- let me think for a second. It
9 would have been early to mid-2012.

10 Q Was that before or after the company
11 Ripple was formed?

12 A It was before.

13 Q How much XRP was created?

14 A One hundred billion.

15 Q Can any more be created?

16 A Not easily. It's a software defined
17 system. So if you could get all of the people
18 using the system to agree to change the
19 software, nothing would prevent them from
20 doing that. But there's no defined process to
21 do such a thing.

22 Q Has Ripple stated that no more XRP
23 can be created?

24 A We've -- I think we've -- I think
25 we've made nuance statements to the effect

1 that systems' rules don't allow additional XRP
2 to be created. And the system has
3 sophisticated safeguards against somebody
4 accidentally or using some sort of an exploit
5 to create more XRP. But I would hope we
6 haven't suggested that it is literally
7 impossible.

8 Q Although it is possible that XRP,
9 more XRP can be created, do you think it's
10 likely that XRP will be created -- more XRP
11 will be created?

12 A I think it's extremely unlikely. I
13 think every effort has been made to make it as
14 difficult as possible to do that.

15 Q Before XRP was created, did you
16 discuss the creation with McCaleb or with
17 Britto?

18 A We discussed it from a technical
19 sense. Like the procedures involved and so
20 on.

21 Q When you say, "a technical sense,"
22 do you mean how to create a native asset?

23 A Correct. The actual mechanics of
24 doing it.

25 Q The coding of it?

1 A Yes. And how -- how that code would
2 be operated to achieve that effect.

3 Q Did you discuss -- strike that.
4 Why did McCaleb create XRP?

5 A I don't really know what his motives
6 were. But from conversations with him, the
7 impression I got was he wanted to sort of
8 advance the technological state of the art in
9 the blockchain space.

10 Q Was -- were there any other reasons
11 to create XRP?

12 A I'm -- I mean, I'm sure -- I
13 hesitate to speculate on someone else's
14 motives.

15 Q Did you have any beliefs as to XRP
16 and how it could be used?

17 A At that time, it was just a job. It
18 was so early at that time that we didn't even
19 know whether the technology would work or what
20 it would be good for. And I didn't think -- I
21 couldn't think far ahead at that time.

22 Q So at the time XRP created, did
23 anyone know if there was a use for it?

24 A I think around that time, we had the
25 idea that it would be the sort of fuel for

1 transactions on the ledger. And that the
2 ledger would serve as a neutral public
3 exchange platform for interchanging other
4 assets. I believe at the time of the --
5 around the formation of the company and around
6 the creation of XRP, in that sort of early
7 2012 time frame, I believe that was kind of
8 the direction we were thinking.

9 Q So you thought that the XRP Ledger
10 could be used as a decentralized exchange?

11 A That's correct.

12 Q And just for the record, can you
13 tell us what a decentralized exchange is.

14 A A decentralized exchange is a system
15 that allows people to trade assets without
16 there being an operator or controller who can
17 sort of -- who can bias the exchange or cause
18 it to operate in an unfair way.

19 Q Can any asset, including XRP and
20 other digital assets, be exchanged on the XRP
21 Ledger?

22 A Yes, they can.

23 Q Was that a functionality that
24 existed at the time the ledger became fully
25 functional?

1 A It was -- it was demonstrable at
2 that time. There was still -- there were
3 still efforts going on to sort of complete it.
4 Sort of button it up so that it was reliable.
5 But I believe you could demonstrate the
6 functionality at that time.

7 Q When was that functionality
8 completed?

9 A I would have to check to be sure.
10 But I know it was sometime in 2012. I would
11 say probably mid-2012.

12 Q You also mentioned that XRP could be
13 used for fuel for transactions.
14 Can you just explain that.

15 A When you have a decentralized public
16 blockchain, it has no way to tell what's
17 legitimate economic activity versus what's
18 noise. I can create an unlimited number of
19 transactions that look like legitimate
20 economic activity to the ledger. Like I can
21 move an asset around that happens to be
22 worthless. Or I can move XRP, let's say from
23 my left pocket to my right pocket and then
24 back, an unlimited number of times. To
25 prevent illegitimate uses with no economic

1 value from sort of swamping out legitimate
2 activity, you need to attach something scarce.
3 It's kind of like the reason that you pay for
4 a candy bar instead of getting a candy bar for
5 free. The first person to come by could just
6 take all the candy bars and then there'd be
7 none for anybody else. You need to attach
8 something scarce.

9 MR. CERESNEY: You got to slow down.
10 I think you're slightly --

11 THE WITNESS: I'm sorry.

12 MR. CERESNEY: She's got to take it
13 all down.

14 A So the idea was that the XRP would
15 be that something scarce that you would attach
16 to a transaction.

17 Q Was there -- at the time that the
18 ledger was created, during that time period
19 that we are talking about now, was there any
20 other purpose for creating XRP?

21 A It was essential to have a native
22 asset for that spam mitigation. No other
23 purpose was necessary. There was no way to
24 accomplish the ledger's purpose without it.

25 Q Was there any other use -- could

1 people -- was there any other potential use
2 case discussed at the time?

3 A I think at that time, and I'm not --
4 I'm not certain.

5 Q What is Ripple?

6 A Um -- well, today we use that term
7 to refer to the company. I think its formal
8 name is Ripple Labs, that I work for.

9 Q What type of company is it? How
10 would you describe its business?

11 A It's a financial services company or
12 a financial technology company.

13 Q When was Ripple founded?

14 A I believe the company now known as
15 Ripple was incorporated as Open Coin,
16 initially. Sometime in 2012. I'm not exactly
17 sure.

18 Q Who founded Ripple?

19 A I believe Chris Larsen and Jed
20 McCaleb.

21 Q You say you believe, do you know for
22 a fact or how -- why do you believe that?

23 A I don't know for a fact. It's just
24 my recollection of who -- you know because --
25 because Jed had initiated -- had started the

1 project and he brought Chris Larsen on to be
2 CEO. And I believe it was the two of them who
3 sort of went through the process of turning it
4 into an actual company.

5 Q Did you have any involvement with
6 the formation of the actual company?

7 A I don't believe so.

8 Q At the time that they were forming
9 the company, were you working on the ledger?

10 A Yes.

11 Q Were you involved in anything else
12 involving the ledger or what was to be
13 known -- what was to become Ripple?

14 A I met with potential investors. I
15 helped with recruiting new employees. And I
16 would say that I participated in discussions
17 about broad strategy-type discussions. My
18 primary responsibility was continuing the
19 development of the ledger.

20 Q At the time, were you working on the
21 ledger full-time?

22 A Yes.

23 Q Did you have any other -- do you
24 have another job?

25 A I did not at that time -- well --

1 No, I did not at that time.

2 Q So this is what you were doing
3 full-time?

4 A Correct.

5 Q Those three things that you
6 described, you met with potential investors
7 and new recruits and discussed strategy on
8 broad-level.

9 During what time period were you
10 doing that?

11 A I think I've been doing all of those
12 things pretty much continuously since then.
13 Although the amount of time that I spend doing
14 development has obviously reduced and more of
15 that time is -- you know, advisory or
16 technical.

17 Q I just want to go back to the time
18 period when Ripple -- Larsen and McCaleb were
19 forming the company.

20 When was that?

21 A I believe mid-2012.

22 Q In mid-2012, were you meeting with
23 potential investors and doing the things we
24 just spoke about or was it after the company
25 was formed?

1 A I think it was after. But I'm not
2 absolutely certain.

3 Q Who were some of the potential
4 investors that you met with?

5 MR. CERESNEY: In that early period?

6 MS. WAXMAN: Yes.

7 MR. CERESNEY: 2012?

8 MS. WAXMAN: Yes.

9 Q If you remember.

10 A The one I'm fairly confident we met
11 with at the time was [REDACTED]
12 There were others, though, and I don't recall.

13 Q Did you pitch the investment to
14 [REDACTED] [REDACTED]?

15 A Yes.

16 Q What did you tell them about the
17 company at the time?

18 A I would describe our pitch at that
19 time as sort of Bitcoin without mining or a
20 decent plus exchange.

21 Q Did you tell them how the company
22 was going to make money?

23 A We certainly had conversations about
24 what possible revenue models would be for the
25 company.

1 Q What were those possible revenue
2 models at the time?

3 A It was quite speculative. There
4 possibilities, like selling software and
5 support. There was like sort of getting
6 between consumers and the ledger, providing
7 wallets or exchange functionality. Possibly
8 transaction fees. Selling data that we might
9 be able to get by having people who come
10 through us to access the exchange. The
11 possibility of the appreciation of the tokens
12 was discussed at the time. It was all
13 entirely speculative. We did not have a sold
14 idea what the revenue model would be at that
15 time.

16 Q Other than selling software and the
17 possibility of the appreciation of tokens,
18 were there any other discussions about how
19 Ripple could make money?

20 MR. CERESNEY: I think he just
21 mentioned a bunch of other things besides
22 those two.

23 Q Right. Were you intending to create
24 wallet software or was that separate from the
25 software piece?

1 A We knew that somebody would have to
2 create wallet software in order for the system
3 to be useable. Our assumption in the
4 beginning was that if anything was going to
5 happen, we would have to do it. Because we
6 couldn't rely on being able to encourage other
7 people to participate. I think we had the
8 idea that we would do whatever we had --
9 whatever was necessary to do, we would do.

10 Q When you say, "selling software,"
11 software that would work with the XRP Ledger?

12 A Right. So we would leverage the
13 fact that we had more expertise from the XRP
14 Ledger or just, you know, the fact that we
15 were sort of positioned and understood the
16 space to find where the revenue -- where
17 revenue could be made in that system. And
18 then move to exploit that.

19 Q What expertise did you have at that
20 point?

21 A At that time, I had --

22 MR. CERESNEY: Expertise in what,
23 though?

24 MS. WAXMAN: He was just talking
25 about expertise with respect to the ledger.

1 That's what I'm talking about.

2 A So we had built -- Arthur Britto and
3 I had built most of the ledger software. We
4 understood it better than anybody else did.
5 The idea was to build a company of people who
6 had a deep technical understanding of the way
7 the ledger would operate. And then we could
8 develop additional software that would work
9 with the ledger and that that software could
10 be a revenue source. Either through selling
11 it, licensing it, supporting it, maintaining
12 it, providing -- whatever -- whatever the --
13 transaction fees, perhaps. And so on.

14 Q What did you pitch regarding the
15 possibility of the appreciation of the tokens;
16 and I assume you are meaning XRP tokens?

17 A Yeah. So that was difficult to do
18 at the time. Because the primary utility for
19 XRP was to pay transaction fees, and
20 transactions were extremely cheap. We raised
21 that as a possible source of revenue. But it
22 was extremely speculative at that time.

23 Q What do you mean by "the primary
24 utility for XRP was to pay transaction fees"?
25 What does that mean?

1 A So the ledger -- the ledger requires
2 a fee to be attached to each transaction to
3 prevent overwhelming of the ledger with
4 billions of nonsense transactions. But that
5 fee is extremely small. The fee is destroyed.
6 It doesn't get paid to any particular person.
7 So to rely on that as a revenue model wouldn't
8 have made sense. It's just too small. And
9 there's no way to capture it.

10 Q At that time did you think that XRP
11 could be used to pay for things? Like Bitcoin
12 had been used to pay for goods and services?

13 A I think that was sort of implicit in
14 our like Bitcoin 2.0. Or better, Bitcoin kind
15 of pitch was the idea that people could use it
16 that way. But I don't think we could have --
17 we couldn't make that argument credibly at
18 that time. There was no reason to think that
19 that would happen.

20 Q That use is different than the use
21 you just described?

22 A Right. Yes.

23 Q So did you pitch use of XRP like a
24 Bitcoin 2.0?

25 A I think we did discuss -- I think we

1 did discuss that. I think it would be fair to
2 say that we pitched it.

3 Q Did you pitch it as a viable option?

4 A At that -- at that time, I think we
5 would have listed it as like one of the
6 possibilities. But it would have been
7 almost -- it would have been impossible to do
8 so with any credibility. There was just no
9 reason to think that that would happen at that
10 time.

11 Q One of the pitches was to use --
12 that XRP would be used to pay transaction
13 fees. Another was that XRP was going to be
14 used to pay for goods and services.

15 Any other pitches regarding the
16 potential use of XRP?

17 MR. CERESNEY: Just when you say XRP
18 was used to pay transaction fees, was that --
19 I just want to make sure that was his
20 testimony.

21 That XRP was going to be used to pay
22 transaction fees or that XRP would generate
23 transaction fees?

24 A It would, in fact -- it was, in
25 fact, used to pay transaction fees. That was

1 the one thing that you could do with XRP that
2 you couldn't do with anything else. You could
3 sort of pay the fees on XRP Ledger. But
4 investors at that time were not particularly
5 interested in sort of what XRP might be used
6 for. They were interested in what the company
7 might be able to do.

8 Q Again, other than selling software
9 or -- and leveraging the XRP, was there
10 anything else that the company was going to
11 do?

12 A I think another possibility was
13 investing in the space. But you know, every
14 company -- every company sort of says that. I
15 think revenue model was a weak point at that
16 time. It was so early, we didn't know exactly
17 what the company would be doing. We didn't
18 know how people would use the XRP Ledger. So
19 that was very, very speculative at the time.

20 Q At the time, did you discuss using
21 XRP as a settlement asset?

22 A I don't believe we had that idea at
23 that time.

24 Q You said that -- why was the
25 possibility of XRP appreciating extremely

1 speculative at the time?

2 A There was just no reason to think
3 that that would happen. Like if you tried to
4 make an argument for why that might happen,
5 there was just no -- there was no -- there was
6 just no answer.

7 Q Well, earlier, we spoke about that,
8 you know, it's very unlikely for the supply of
9 XRP to increase, correct?

10 A Correct.

11 Q So if there's more demand for the
12 asset, would there be appreciation?

13 A You would expect that.

14 Q Did you expect any of these
15 potential use cases to create demand for XRP?

16 A Not that would significantly affect
17 the price of asset. In fact, we pretty
18 specifically said that we didn't think that
19 those use cases would create demand for the
20 asset to create significant price
21 appreciation. Simply because the amounts that
22 we foresaw people needing at that time were so
23 small.

24 You kind of have this thing that you
25 want something to be cheap so people will

1 be -- will use it. But if it's cheap, then
2 there just isn't a lot of money being moved
3 around. So that was kind of the reason we
4 couldn't have made those arguments at that
5 time. Or if we had, we would just not have --
6 they would not have had any credibility with
7 venture capitalists or investors.

8 Q I understand that at the time, the
9 asset was very inexpensive. Is that a fair
10 conclusion?

11 A It was literally worthless. Like
12 when someone asked for some XRP to interact
13 with the ledger, how much should we give them?
14 Should we give them one or a million? It --
15 I -- I can't stress enough, it was literally
16 worthless.

17 Q I understand that.

18 But did people believe and pitch
19 that XRP would increase in value as demand for
20 the XRP increased?

21 A I -- I don't believe anybody could
22 have at that time. It would have been so
23 implausible.

24 Q That's 2012. At any point, did they
25 start to pitch that?

1 A Later on, as that became a more
2 credible position to make and there was
3 evidence that there was demand that could, in
4 fact, impact the price, it became more obvious
5 that that was a possible revenue model for the
6 company. Of course, the company did produce a
7 significant amount of revenue that way.

8 Q During what period of time did it
9 become obvious that appreciation of token
10 could provide revenue, significant revenue?

11 A I would have to check the chart of
12 the price. But it was certainly -- as it
13 became publicly traded, it became a way for
14 people to easily buy and sell it, as a market
15 price was established. I would have to check.
16 But sort of in the time period where those
17 things happened, it became more plausible that
18 demand for XRP would create a price that would
19 give the company revenue model from the sales
20 of XRP.

21 Q Do you think that happened in 2013?

22 A I don't believe so. I think it
23 was -- I think it was more like 2015. But if
24 you check the chart of the price of XRP, you
25 can reason out what -- what we -- how

1 plausible that argument would have been sort
2 of through that time period.

3 Q What price is your benchmark for --
4 I mean, what price would I be looking for on
5 the chart?

6 A I would say order of magnitude, five
7 cents as sort of -- a sort of price that goes
8 from it being like you can't make an argument
9 that there's revenue or money here to the
10 point where it becomes that sort of order of
11 magnitude.

12 MS. WAXMAN: Andrew, I'm sorry.

13 Did --

14 MR. CERESNEY: No. I was just going
15 to suggest -- you went in a different
16 direction. So it's fine.

17 Q How did the investors receive the
18 pitch?

19 MR. CERESNEY: You are talk about
20 the investors that purchased in 2012?

21 MS. WAXMAN: Yes.

22 A I'm not sure I understand what
23 you're asking.

24 MR. CERESNEY: Did they invest?

25 THE WITNESS: Did they like it?

1 Q Did they invest?

2 A Some did and some didn't.

3 Q Other than what we were discussing
4 about software and, you know, possible uses
5 for the token, were there other broad
6 strategies discussed with respect to either
7 the ledger, software or XRP?

8 A I don't believe so at that time.

9 Q In that time period, the 2012 time
10 period, did the company have any investors?

11 A We had two -- well, Jed McCaleb, I
12 guess, also invested in the company. Chris
13 Larsen also invested in the company. I
14 believe prior to forming the company, [REDACTED]
15 [REDACTED] and [REDACTED] also invested. And then
16 around the time the company was formed, there
17 was an initial funding around that had a
18 number of participants. I don't recall who
19 they were.

20 Q Was this all prior to Open Coin
21 being formed in 2012?

22 A Jed McCaleb, Chris Larsen, [REDACTED]
23 and [REDACTED] I believe, all invested
24 prior to the formation of the company. I
25 believe that the funding round -- that the

1 additional investors was after that.

2 Q Okay. Thank you.

3 Do you know how much Chris Larsen
4 invested or Jed McCaleb?

5 A I -- I don't know.

6 Q Do you have a general belief?

7 A I think it was more than \$100,000.00
8 and less than a million dollars.

9 Q That's a big range, in my opinion.

10 A I know. I wish I -- I did know at
11 one time. But I don't recall.

12 Q What about Jed?

13 A Who, I'm sorry?

14 Q Jed McCaleb, do you know how much he
15 invested?

16 A I think he probably invested more
17 than that because he was paying people's
18 salaries prior to the other investors coming
19 on board. But I don't know if they settled
20 between themselves or -- I wasn't part of
21 those conversations.

22 Q Do you know how it came about that
23 [REDACTED] invested?

24 A I believe that Jed and [REDACTED]
25 were talking about the project from the very

1 beginning. I think Jed got [REDACTED] interested
2 in investing possibly even prior to him
3 contacting me.

4 Q Were you asked to invest?

5 A No, I wasn't.

6 Q Do you know why?

7 A I think -- I think they knew that
8 there was no way I could have. I didn't have
9 funds to do that.

10 Q Who is [REDACTED] If I -- how do
11 you pronounce his last name?

12 A I pronounce it [REDACTED] But I'm not
13 confident that that's correct.

14 Q We'll go with [REDACTED]

15 A [REDACTED] developed a project
16 called Ripple, I think, in early 2000s that
17 was a -- it was a payment system with some
18 principals similar to the XRP Ledger's
19 decentralized exchange.

20 Q Did he have any involvement with the
21 formation of Open Coin?

22 A No.

23 Q What was his involvement with XRP
24 Ledger; if any?

25 A I believe shortly after we formed

1 the company, around the time that we were
2 looking for a better name than Open Coin, the
3 idea of using the name Ripple came up. And we
4 wanted to contact [REDACTED] because he had a
5 prior project named Ripple and it inspired
6 some of those very same ideas.

7 Q Some of the technology that he
8 created, was some of that incorporated in the
9 ledger?

10 A I wouldn't say the technology, but I
11 would say the concepts. The concept of sort
12 of having a sort of asset hub. Somebody
13 who -- someone who -- someone who sort of
14 borrowed and loaned money to a number of
15 different people that would sort of act as a
16 connector. Kind of -- kind of like the role
17 of anchor price.

18 Q When Open Coin was formed, how many
19 employees did it have?

20 A I believe, at that time, roughly
21 seven.

22 Q Who were they?

23 A At that time, there would have been
24 myself, Arthur Britto, although he might not
25 technically have been an employee. Jed

1 McCaleb, Chris Larsen. I believe [REDACTED]
2 was actually working pretty closely with the
3 company at that time. There was a designer,
4 [REDACTED] -- I don't recall his last name. Patrick
5 Griffin may have been on at that time. And
6 [REDACTED] Chris Larsen's assistant.
7 That's all I recall at this time.

8 Q What was Britto's relationship to
9 the company if he was not an employee?

10 A He was -- he was working on
11 developing the ledger still at that time and
12 he was advising the company. But I believe --
13 I don't know if he was getting -- I don't know
14 if he was receiving a salary or what the
15 details of the arrangement with him were.
16 Other than the ledger agreement, which became
17 public.

18 Q Was he an initial investor in the
19 company?

20 A I don't believe so.

21 Q Do you know why not?

22 A I -- I would just have to speculate.
23 I don't know.

24 Q Sure.

25 MR. CERESNEY: This is total

1 speculation?

2 A Yeah. This is just based on what I
3 think probably would have happened. But he
4 was working on the code and his was
5 contributing his development efforts. I think
6 he felt that he could negotiate what he wanted
7 to get out of the company without having to
8 give any more than that.

9 Q Fair enough.

10 MR. CERESNEY: But that's
11 speculation.

12 A That is speculation. I wasn't in on
13 those conversations.

14 Q He never told you that?

15 A No, he did not.

16 Q Did anyone else tell you that?

17 A No.

18 Q And --

19 MR. CERESNEY: Just to be clear, I'm
20 not going to let you speculate much. But I
21 figured that was painless.

22 MS. WAXMAN: You are your own
23 person. You can say what you want.

24 MR. CERESNEY: Just putting --

25 MS. WAXMAN: And I know you do.

1 Q So was [REDACTED] an employee as
2 well as an investor?

3 A He was working closely with the
4 company. I don't know the exact nature of his
5 relationship. But I believe that he was
6 not -- he was not a detached investor. He was
7 interested in what was going on with the
8 development. He was talking with employees.
9 But he wasn't -- he wasn't working -- he
10 wasn't working like full-time on the project.

11 Q Was he drawing a salary?

12 A I -- I don't know.

13 Q Did he contribute to the code?

14 A I don't believe so.

15 Q Did he -- did you ever discuss with
16 him broad strategy?

17 A With [REDACTED]?

18 Q Yes.

19 A There was definitely a meeting very
20 early. Jed -- when -- before anyone else was
21 on the project, except myself and Jed McCaleb,
22 we had a meeting with [REDACTED]. I think
23 the purpose of that meeting was more to
24 introduce [REDACTED] to me prior to Jed committing
25 to hiring me to work on the project.

1 Q Was this at the burrito shop?

2 A That was the famous burrito shop
3 meeting. Yes.

4 Q When did that take place?

5 A It was very shortly after Jed
6 interviewed me. It would have been October
7 2011. Possibly early November 2011. That time
8 frame. It was before I started working on the
9 project.

10 Q You said -- did you discuss strategy
11 at that meeting?

12 A I believe so.

13 Q What did -- who -- before -- what
14 did you discuss?

15 A Well, we had very little to discuss
16 at that time. The entirety of the project was
17 Bitcoin without mining or using a distributed
18 agreement algorithm. It was very much
19 technical in terms of what were the -- if I
20 were hired, what were the technical avenues
21 that I would pursue, you know, to attempt to
22 turn that into a reality. I think we also
23 discussed the space generally. It was more
24 about introducing [REDACTED] to me so that
25 we would sort of have a relationship, than any

1 specific agenda.

2 Q Did you discuss during that meeting
3 how XRP could be distributed?

4 A We -- we may have. But I don't
5 recall us doing so.

6 Q Did you discuss how to get broad --
7 adoption of XRP?

8 A Again, we may have. But I don't
9 specifically recall.

10 Q Who else was present besides you and

11 [REDACTED]

12 A At that meeting, it was just myself,

13 [REDACTED] and Jed McCaleb.

14 Q Were there other similar meetings
15 that occurred around the same time?

16 MR. CERESNEY: "Similar meetings,"
17 you mean meetings about strategy?

18 MS. WAXMAN: No. I don't want to
19 limit it to that.

20 Q I just -- I'm curious, how many
21 times did you meet to discuss the project in
22 that early time period?

23 A I think there probably would have
24 been -- I would say probably more than five,
25 but fewer than ten occasions where I met with

1 people to discuss the project.

2 Q What were the purpose of those
3 meetings or discussions?

4 A It could have been to secure
5 investment. It could have been just to
6 discuss technical direction that the company
7 was going. Sometimes they were just more
8 social than anything else. At the time, I
9 lived about a hundred miles away from the bay
10 area. So we had to like arrange a meeting in
11 order for -- I was working from home. So we
12 had to arrange a meeting in order to meet in
13 person.

14 Q And did the -- did you have office
15 space?

16 A Some --

17 Q When I say, "you," did the company?

18 A Sometime around that time frame, we
19 started having enough people working on the
20 project that we needed -- like a -- like we
21 had a co-working space.

22 Q I don't think "we work" existed at
23 the time.

24 A It was not "we work."

25 MS. WAXMAN: Sorry.

1 MR. CERESNEY: You just did that --

2 Q At the time -- earlier, we talked
3 about the funding round. The first funding
4 round.

5 How much was raised?

6 A My recollection is that we raised
7 twelve million dollars.

8 Q From how many investors?

9 A Five to seven, I think.

10 Q Did you meet with all of them?

11 A No.

12 Q Who was the primary person who
13 pitched the investment?

14 A Chris Larsen.

15 Q Anyone else?

16 A I would say Jed. Probably Jed
17 second to Chris.

18 Q Were there materials that they both
19 used to pitch the company and materials that
20 is they distributed to potential investors?

21 A Yes.

22 Q Did you help prepare those
23 materials?

24 A I don't believe I did.

25 Q Did you receive the materials at the

1 time that they were being used?

2 A Yes.

3 Q What sort of information was
4 included in the material?

5 A Um -- my recollection is that they
6 described the project as like a Bitcoin 2.0 or
7 like an improvement over Bitcoin. Bitcoin
8 without mining. And discussed how the
9 decentralized exchange might be used. And
10 then what the potential role of the company
11 might be in that -- in that world.

12 Q Did they discuss the potential
13 revenue prospects for the company?

14 A I'm sure we had to. I can't imagine
15 that we could have had a pitch to investors
16 that didn't include a revenue model.

17 MR. CERESNEY: But do you recall
18 that?

19 THE WITNESS: I don't -- I don't
20 specifically recall it being in the materials.

21 Q Did you discuss during that time
22 period with anybody, either with Jed, Chris or
23 any potential investors, any risks to
24 investment? If there were any potential risks
25 to Ripple's business model at the time?

1 A Yes.

2 Q What risks were discussed?

3 A Technical execution risks,
4 regulatory risks, product market fit risks.
5 And I'm sure there were others.

6 Q Can you describe the technical risk.

7 A The technologies that we were
8 developed were -- you could demonstrate them
9 at that time. But they didn't have a proven
10 track record of reliability. There was even a
11 concern that there could be a technical flaw
12 that would just destroy the entire utility of
13 the system. It was very, very early. So I
14 would characterize those risks that way.

15 Q Risk that there was a bug in the
16 code that someone could exploit?

17 A Not so much a bug, as like a
18 fundamental design flaw. Like something --
19 because a bug, you could fix. It could be
20 damaging. You wouldn't expect that to destroy
21 a company. Of course, it would be a risk
22 because it could cause harm. But more at that
23 time, it was so early that the concern was
24 basically that the whole idea just wouldn't
25 work for some reason not apparent at the time.